

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Ishpeming Area Wastewater Treatment</u>	Facility <u> </u>	County <u>Marquette</u>
Audit Date <u>12/31/05</u>	Opinion Date <u>3/17/06</u>	Date Accountant Report Submitted to State: <u>4-19-06</u>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <u>Anderson, Tackman & Co, PLLC</u>			
Street Address <u>102 W. Washington St. Suite 109</u>	City <u>Marquette</u>	State <u>MI</u>	ZIP <u>49855</u>
Accountant Signature <u>Michael A. S. CPA</u>			

**Ishpeming Area Wastewater
Treatment Facility
Financial Statements
For the Year Ended December 31, 2005**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Authority Board
Ishpeming Area Wastewater Treatment Facility
700 Sunset Drive
Ishpeming, Michigan 49849

We have audited the statement of net assets of the Ishpeming Area Wastewater Treatment Facility, as of December 31, 2005, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Ishpeming Area Wastewater Treatment Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ishpeming Area Wastewater Treatment Facility at December 31, 2005, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 17, 2006 on our consideration of the Ishpeming Area Wastewater Treatment Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Authority Board
Ishpeming Area Wastewater Treatment Facility

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ishpeming Area Wastewater Treatment Facility's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Ishpeming Area Wastewater Treatment Facility. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

Anderson, Jackman & Company, PLLC
Certified Public Accountants

March 17, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Ishpeming Area Wastewater Treatment Facility's financial performance provides an overview of the Facility's financial activities for the year ended December 31, 2005. Please read it in conjunction with the financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$6,797,215. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$865,025, while revenues from all sources totaled \$773,547 resulting in a decrease in net assets of \$91,478.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's operating base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides.

Table I provides a summary of the Facility's net assets as of December 31, 2005 and 2004.

Table 1 Net Assets		
	2005	2004
Current and other assets	\$1,992,576	\$2,085,451
Capital assets, net	4,958,995	4,982,870
Total Assets	6,951,571	7,068,321

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

	2005	2004
Current liabilities	\$91,642	\$119,517
Non-current liabilities	62,714	60,111
Total Liabilities	<u>154,356</u>	<u>179,628</u>
Net Assets:		
Invested in capital assets	4,958,995	4,982,870
Restricted	1,804,069	1,843,705
Unrestricted	34,151	62,118
Total Net Assets	<u>\$6,797,215</u>	<u>\$6,888,693</u>

Net assets of the Facility's business-type activities stood at \$6,797,215. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$34,151.

The \$34,151 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2005 and 2004.

Table 2
Changes in Net Assets

	2005	2004
Operating revenues:		
City and Township service revenues	\$552,929	\$508,029
City and Township capital revenues	96,027	-
Other operating revenues	60,535	91,727
Total Operating Revenues	<u>709,491</u>	<u>599,756</u>
Operating expenses:		
Interlocal Board	3,344	3,582
Operations	539,039	538,151
Depreciation	322,642	311,845
Total Operating Expenses	<u>865,025</u>	<u>853,578</u>
Income (loss) from operations	<u>(155,534)</u>	<u>(253,822)</u>
Non-operating Revenues (Expenses):		
Interest income	58,140	62,118
Gain (loss) on disposal of assets	5,916	(9,098)
Total Non-operating Revenues (Expenses)	<u>64,056</u>	<u>53,020</u>
Increase (decrease) in net assets	<u>(91,478)</u>	<u>(200,802)</u>
Net assets, beginning	<u>6,888,693</u>	<u>7,089,495</u>
Net Assets, Ending	<u>\$6,797,215</u>	<u>\$6,888,693</u>

The Facility's total revenues were \$773,547. The total cost of all programs and services was \$865,025, leaving a decrease in net assets of \$91,478 as a result of fiscal year 2005 operations.

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The net loss for the current year of \$91,478 is the result of (\$198,386) in depreciation expense that is not recovered from City and Township revenues (the assets were paid by grants when the facility was built) combined with (\$6,566) in operation and maintenance expenses that were paid from restricted capital improvement monies and not current year revenues. Conversely, there were increases in revenues of \$96,027 from City and Township capital charges and \$17,425 gross sale proceeds of capital assets that did not have related expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005, the Facility had \$4,958,995 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

	Table 3	
	Capital Assets	
	2005	2004
Buildings	\$7,905,932	\$7,905,932
Equipment and furnishings	1,807,626	1,678,276
Vehicles	170,787	208,912
	9,884,345	9,793,120
Accumulated depreciation	(4,925,350)	(4,810,250)
Totals	\$4,958,995	\$4,982,870

The Facility purchase \$310,276 in computers, pumps and facility upgrades during the fiscal year. The Facility recorded \$322,642 in depreciation expense for the year, and disposed of equipment with a net book value of \$11,509.

Debt

The Facility has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for the year ending December 31, 2006 there appears to be no anticipated changes in operations of funding concerns.

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Director at Ishpeming Area Wastewater Treatment Facility, 700 Sunset Drive, Ishpeming, Michigan 49849.

Ishpeming Area Wastewater Treatment Facility

Statement of Net Assets

December 31, 2005

ASSETS

Current assets:

Cash and equivalents	\$ 86,695
Cash and equivalents - restricted	674,650
Investments - restricted	1,192,073
Accounts receivable	4,028
Inventory	17,782
Prepaid expense	<u>17,348</u>
Total current assets	<u>1,992,576</u>

Noncurrent assets

Capital assets - net	<u>4,958,995</u>
Total noncurrent assets	<u>4,958,995</u>

TOTAL ASSETS	<u>6,951,571</u>
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LIABILITIES

Current liabilities:

Accounts payable	17,805
Accrued payroll	11,238
Deferred revenue - City of Ishpeming	43,185
Deferred revenue - Township of Ishpeming	<u>19,414</u>
Total current liabilities	<u>91,642</u>

Noncurrent liabilities:

Compensated absences	<u>62,714</u>
Total noncurrent liabilities	<u>62,714</u>

TOTAL LIABILITIES	<u>154,356</u>
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NET ASSETS

Invested in capital assets--net of related debt	4,958,995
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Retained earnings:

Restricted for sick leave liability	
City of Ishpeming	1,607
Township of Ishpeming	792
Restricted for capital improvement:	
City of Ishpeming	68,127
Township of Ishpeming	33,555
Restricted for equipment replacement:	
City of Ishpeming	1,138,992
Township of Ishpeming	560,996
Unrestricted	
City of Ishpeming	22,880
Township of Ishpeming	<u>11,271</u>

TOTAL NET ASSETS	<u><u>\$ 6,797,215</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

Ishpeming Area Wastewater Treatment Facility
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended December 31, 2005

OPERATING REVENUE:

Charges for services - City of Ishpeming	\$ 381,531
Charges for services - Township of Ishpeming	171,398
Charges for capital - City of Ishpeming	71,052
Charges for capital - Township of Ishpeming	24,975
Leachate charges	26,023
Other charges	31,171
Reimbursements	<u>3,341</u>
Total operating revenues	<u>709,491</u>

OPERATING EXPENSES:

Interlocal board	3,344
Salaries	186,635
Fringe benefits	124,175
Process chemicals	20,942
Maintenance supplies	13,796
Laboratory	7,854
Professional fees	26,124
Copper testing	82
Vehicles	5,927
Utilities	109,527
Equipment rentals	922
Professional development	915
Other general expenses	37,622
Safety and health	4,518
Depreciation expense	<u>322,642</u>
Total operating expenses	<u>865,025</u>

OPERATING INCOME (LOSS) (155,534)

NON-OPERATING REVENUES (EXPENSES)

Interest income	58,140
Gain (Loss) on disposal of assets	<u>5,916</u>

TOTAL NON-OPERATING REVENUES (EXPENSES) 64,056

CHANGE IN NET ASSETS (91,478)

TOTAL NET ASSETS - BEGINNING OF YEAR 6,888,693

TOTAL NET ASSETS - END OF YEAR \$ 6,797,215

The Notes to the Financial Statements are an integral part of this statement.

Ishpeming Area Wastewater Treatment Facility
Statement of Cash Flows
For the year ended December 31, 2005

Cash flows from operating activities:

Collections from customers	\$ 674,701
Payments to employees and related items	(314,179)
Payments to vendors	<u>(227,558)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 132,964

Cash flows from capital & related financing activities:

Sale of equipment	17,425
Purchase of equipment	<u>(310,276)</u>

NET CASH PROVIDED BY CAPITAL & RELATED FINANCING ACTIVITIES (292,851)

Cash flows from investing activities:

Decrease in unrestricted investments	88,612
(Increase) in restricted cash and cash equivalents	(674,650)
Decrease in restricted investments	711,742
Interest income	<u>58,140</u>

NET CASH (USED) BY INVESTING ACTIVITIES 183,844

NET INCREASE (DECREASE) IN CASH 23,957

Cash, beginning of year 62,738

CASH, END OF YEAR \$ 86,695

**RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED
BY OPERATING ACTIVITIES:**

Net operating loss	\$ (155,534)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	322,642
(Increase) decrease in accounts receivable	(1,362)
(Increase) decrease in inventory	(10,001)
(Increase) decrease in prepaid expense	2,491
Increase (decrease) in accounts payable	8,181
Increase (decrease) in accrued payroll	(2,628)
Increase (decrease) in deferred revenue	(33,428)
Increase (decrease) in accrued sick leave	<u>2,603</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 132,964

The Notes to the Financial Statements are an integral part of this statement.

ISHPEMING AREA WASTEWATER TREATMENT FACILITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE A – DESCRIPTION OF THE REPORTING ENTITY:

Organization

The Ishpeming Area Wastewater Treatment System's 1984 contract was entered into during 1984, between the City of Ishpeming (City), the Township of Ishpeming (Township), the County of Marquette, and the Ishpeming Area Joint Wastewater Treatment Board. The contract called for the construction of a wastewater treatment facility. The facility was completed and became operational in 1986. The Board consists of five members. One member is appointed by the Marquette County Health Department. Each member serves a three year term. The Director is hired by the Board. The Board provides wastewater treatment services to the City of Ishpeming and the Township of Ishpeming. The accompanying financial statements include only the Ishpeming Area Joint Wastewater Treatment Facility and do not include any other governmental agencies or departments.

Interlocal Agreement

The City of Ishpeming and the Township of Ishpeming entered into an agreement during 1981, for the purpose of creating the Ishpeming Area Joint Wastewater Treatment Board. The Board is to design, construct, operate and maintain a joint wastewater treatment plant and related facilities. Unless otherwise agreed to by the City and Township, the Board shall not levy or assess user charges, sewer rates, or fees directly against individual users of the Wastewater Treatment Facility, but shall instead be reimbursed by contract payments from the City and Township. The City and Township shall be responsible for collecting user charges, sewer rates, fees, penalties, and the like from their respective residents and users of the system.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Ishpeming Area Wastewater Treatment Facility have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Ishpeming Area Wastewater Treatment Facility are described below.

(1) Fund Accounting - Ishpeming Area Wastewater Treatment Facility is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Ishpeming Area Wastewater Treatment Facility is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(2) Basis of Accounting - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Mission Statement and Nonoperating Revenues and Expenses - The Facility's primary mission is to provide wastewater treatment services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

Cash and Equivalents

For the purposes of the statement of cash flows, the Facility considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair market value.

Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

(1) Land, Buildings, and Equipment - Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Ishpeming Area Wastewater Treatment Facility Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

(2) Board-Designated Assets - Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

(3) Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE C – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government from the Statement of Net Assets:

	Primary Government
Unrestricted:	
Cash and cash equivalents	\$86,695
Investments	-
Restricted:	
Cash and cash equivalents	674,650
Investments	1,192,073
TOTALS	\$1,953,418

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State law does not require and the Facility does not have a deposit policy for custodial credit risk. The carrying amounts of the Facility's deposits with financial institutions were \$761,345 and the bank balance was \$770,429. The bank balance is categorized as follows:

Amount insured by the FDIC or uncollateralized with securities held by the Facility in its name	\$471,920
Amount collateralized with securities held by the pledging financial institutions trust department in the Facility's name:	
Collateralized and uninsured	298,509
	<u>\$770,429</u>

Investments

As of December 31, 2005, the Facility had the following investments.

	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
PRIMARY GOVERNMENT:					
Restricted Investments:					
Financing Corp CPN FICO Strips	\$351,093	\$22,683	\$275,944	\$52,466	\$-
United State Treasury Bond Stripped Interest Payment	145,983	58,432	87,551	-	-
Federal National Mortgage Association Medium Term Note	255,131	-	29,050	-	226,081

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
Federal Home Loan Mortgage Corp Medium Term Note	\$352,388	\$-	\$77,850	\$66,820	\$207,718
Financing Corp Strips Zero CPN	4,199	-	4,199	-	-
Federal Home Loan Banks Consolidated Bond	83,279	-	-	83,279	-
TOTAL INVESTMENTS	\$1,192,073	\$81,115	\$474,594	\$202,565	\$433,799

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Facility's investments. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the Facility to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The Facility has no investment policy that would further limit its investment choices. Ratings are not required for the Facility's investment in U.S. Government Agencies or equity-type funds. The Facility's investments are in accordance with statutory authority.

Concentration of Credit Risk

The Facility places no limit on the amount the Facility may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE D – FIXED ASSETS:

A summary of the fixed assets for the Facility is as follows:

	Balance January 1, 2005	Additions	Disposals	Balance December 31, 2005
Wastewater Plant	\$7,905,932	\$-	\$-	\$7,905,932
Machinery and Equipment	1,678,276	217,211	(87,861)	1,807,626
Vehicles	208,912	93,065	(131,190)	170,787
Total	9,793,120	310,276	(219,051)	9,884,345
Less accumulated depreciation	(4,810,250)	(322,642)	207,542	(4,925,350)
NET FIXED ASSETS	\$ 4,982,870	(\$ 12,366)	(\$ 11,509)	\$ 4,958,995

NOTE E – RESTRICTED ASSETS AND NET ASSETS:

Certain cash and equivalents and investments have been restricted for future equipment replacements, capital improvements and sick leave liability. Similarly, a portion of net assets has been restricted for these items. This indicates that a portion of net assets has been legally segregated for that specific purpose.

NOTE F – DEFERRED REVENUES:

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

During the year, the Facility bills the City and Township a monthly amount based on budgeted charges for services. At year end, actual charges for services are calculated for each municipality and an adjustment is made to revenue. The difference between calculated revenues and the amounts billed to the municipalities are recorded as deferred revenue. At December 31, 2005, the Board has recorded deferred revenue of \$43,185 and \$19,414 for the City and Township, respectively.

NOTE G – ACCRUED SICK LEAVE:

The Facility has a policy of allowing full-time employees to accumulate sick leave benefits. Employees may accumulate a maximum of one hundred days. One sick leave day is allowed for each accumulated month of service. Accrued sick leave payable as of December 31, 2005 was \$62,714 and was funded with \$65,113 of investments that are segregated for the payment of sick leave benefits.

<u>Balance</u>	<u>Change</u>	<u>Balance</u>
<u>12/31/2004</u>		<u>12/31/2005</u>
<u>\$60,111</u>	<u>\$2,603</u>	<u>\$62,714</u>

NOTE H – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2004).

Plan Description

The Facility contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative Agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Southfield, MI 48076.

The qualified employees of the Facility are eligible to participate in the System. Benefits vest after ten years of service. Facility employees who retire at or after the age of 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life. Qualified employees receive a monthly payment equal to 2.50 percent of final average compensation, with a

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

maximum benefit of 80% of final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and Facility contracts.

Funding Policy

The Facility is required to contribute the amounts necessary to fund the System, using the actuarial basis specified by statute.

Annual Pension Cost

For the year ended December 31, 2005, the Facility's required annual pension cost of \$18,240. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period of 30 years.

Three-Year Trend Information Analysis of Funding Progress

<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial Accrued</u> <u>Liability (AAL) –</u> <u>Entry Age (a)</u>	<u>Actuarial Value</u> <u>Of Assets (b)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u> <u>(a) – (b)</u>	<u>Funded Ratio</u> <u>(b/a)</u>	<u>Covered</u> <u>Payroll (c)</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered Payroll</u> <u>((a-b)/c)</u>
2002	\$403,196	\$319,744	\$83,452	79%	184,095	45%
2003	459,702	363,412	96,290	79	188,701	51
2004	497,056	408,103	88,953	82	201,563	44

Schedule of Employer Contributions

<u>Fiscal Year Ending</u> <u>December 31</u>	<u>Valuation Date</u> <u>December 31</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2002	2000	\$9,573	100%	-
2003	2001	16,606	100	-
2004	2002	18,685	100	-

NOTE I – RISK MANAGEMENT:

The Facility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Facility maintains insurance coverage through the Hannula Insurance Agency which covers each of those risks of loss. Management believes such Coverage is sufficient to preclude any significant uninsured losses to the Facility. Settled claims have not exceeded this coverage in any of the past three years.

NOTE J – DEFERRED COMPENSATION PLAN:

The Facility offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The plans are available to all Facility employees and permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

NOTE J – DEFERRED COMPENSATION PLAN (Continued):

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the Facility's general creditors. Therefore, the Plan is not presented in these financial statements.

OTHER FINANCIAL INFORMATION

Ishteming Area Wastewater Treatment Facility
Schedule of Changes in Retained Earnings and Contributed Capital
For the year ended December 31, 2005

	Investment In Capital Assets Federal	Investment In Capital Assets State	Investment In Capital Assets City	Investment In Capital Assets Township	Restricted Sick Leave Reserve City	Restricted Sick Leave Reserve Township	Restricted Capital Improvement City	Restricted Capital Improvement Township	Restricted Equipment Replacement City	Restricted Equipment Replacement Township	Unrestricted City	Unrestricted Township	Totals
Balance - Beginning of Year	\$3,100,270	\$ 204,714	\$1,124,184	\$ 553,702	\$ 2,205	\$ 1,086	\$ 46,353	\$ 22,831	\$ 1,186,724	\$ 584,506	\$ 41,618	\$ 20,500	\$6,888,603
Net Income (Loss)	-	-	-	-	-	-	-	-	-	-	(61,290)	(30,188)	(91,478)
Depreciation	(170,728)	(11,273)	(94,229)	(46,412)	-	-	-	-	-	-	216,170	106,472	-
Equipment Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement	-	-	46,927	23,113	-	-	(46,927)	(23,113)	-	-	-	-	-
Equipment Replacement	-	-	160,069	78,840	-	-	-	-	(160,069)	(78,840)	-	-	-
Unrestricted	-	-	888	439	-	-	-	-	-	-	(888)	(439)	-
Book Gain (Loss) on Asset Disposal	-	-	(7,711)	(3,798)	-	-	-	-	-	-	7,711	3,798	-
Gross Proceeds from the Sale of Assets	-	-	-	-	-	-	-	-	11,675	5,750	(11,675)	(5,750)	-
Depreciation on Equipment and Vehicles	-	-	-	-	-	-	-	-	83,251	41,005	(83,251)	(41,005)	-
Interest on Restricted Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Sick Leave Reserve	-	-	-	-	1,147	565	-	-	-	-	(1,147)	(565)	-
Capital Improvement	-	-	-	-	-	-	688	329	-	-	(688)	(329)	-
Equipment Replacement	-	-	-	-	-	-	-	-	35,495	17,483	(35,495)	(17,483)	-
Investment Fees	-	-	-	-	-	-	-	-	27	13	(27)	(13)	-
Restricted Leachate Revenue	-	-	-	-	-	-	-	3,693	-	-	(7,439)	(3,693)	-
Capital Improvement	-	-	-	-	-	-	-	-	1,585	780	(1,585)	(780)	-
Equipment Replacement	-	-	-	-	-	-	-	-	-	-	-	-	-
City and Township Capital Charges	-	-	-	-	-	-	64,338	31,669	-	-	(64,338)	(31,669)	-
O & M Expense Paid From Capital	-	-	-	-	-	-	(3,804)	(1,874)	-	-	3,804	1,874	-
Change in Compensated Absences	-	-	-	-	-	(859)	-	-	-	-	1,745	859	-
Over (Under) funding of Investments	-	-	-	-	-	-	-	-	(19,696)	(9,701)	19,695	9,702	-
Net Change	(170,728)	(11,273)	105,944	52,182	(598)	(294)	21,774	10,724	(47,732)	(23,510)	(18,738)	(9,229)	(91,478)
Balance - End of Year	\$2,929,542	\$ 193,441	\$1,230,128	\$ 605,884	\$ 1,607	\$ 792	\$ 68,127	\$ 33,555	\$ 1,138,992	\$ 560,996	\$ 22,880	\$ 11,271	\$6,797,215

Ishpeming Area Wastewater Treatment Facility
Schedule of Expenses - Budget and Actual
For the year ended December 31, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
INTERLOCAL BOARD:			
Board compensation	\$ 2,680	\$ 2,680	\$ -
FICA	220	205	15
Mileage and expense	600	459	141
Total interlocal board	<u>3,500</u>	<u>3,344</u>	<u>156</u>
SALARIES:			
Preliminary treatment	6,109	6,109	-
Grit removal	2,500	2,012	488
Secondary treatment	1,618	1,225	393
Chlorination/dechlorination	1,000	952	48
Sludge handling	700	557	143
Belt press	14,000	13,970	30
Sludge hauling	3,700	3,377	323
Laboratory ww	34,000	33,985	15
Laboratory water	900	253	647
Grounds maintenance	6,600	6,362	238
Buildings maintenance	14,000	13,861	139
Equipment maintenance	12,300	12,287	13
Vehicle maintenance	2,000	1,680	320
Plant operations	46,000	45,414	586
Administration	38,145	38,112	33
Training	1,500	1,240	260
Safety training	700	191	509
Weekend operator	5,500	5,048	452
Total salaries	<u>191,272</u>	<u>186,635</u>	<u>4,637</u>
FRINGE BENEFITS:			
Retirement	22,000	20,498	1,502
Health insurance	51,500	50,193	1,307
Life insurance	902	901	1
FICA	17,600	16,108	1,492
Vacation	17,000	16,447	553
Sick leave	9,640	9,637	3
Holidays	8,100	8,042	58
Personal leave days	2,400	2,349	51
Total fringe benefits	<u>129,142</u>	<u>124,175</u>	<u>4,967</u>
PROCESS CHEMICALS:			
Ferrous chloride	5,300	4,309	991
Polymer - press	11,037	11,037	-
Chlorine	5,178	3,967	1,211
Sulfur dioxide	2,500	1,629	871

Ishpeming Area Wastewater Treatment Facility
Schedule of Expenses - Budget and Actual
For the year ended December 31, 2005

	Budget	Actual	Variance
PROCESS CHEMICALS, continued			
Odor control	\$ 300	\$ -	\$ 300
Total process chemicals	24,315	20,942	3,373
MAINTENANCE SUPPLIES:			
Influent pumps raw	250	63	187
Comminuter	500	21	479
Grit equipment (removal)	200	49	151
Oxidation ditches	200	-	200
Clarifiers	1,200	942	258
Aerobic digestors	200	-	200
DAF thickeners	400	325	75
RAS pumps	500	453	47
WAS pumps (sludge)	200	15	185
Recycle pumps	100	-	100
Chemical feed equipment (press)	500	2	498
Chemical feed equipment (CL2)	500	95	405
Chemical feed equipment (dechlor)	500	12	488
Chemical feed equipment (p removal)	210	209	1
Belt presses	2,600	2,569	31
Laboratory and samplers	200	104	96
Buildings	2,600	2,548	52
Grounds	1,500	1,220	280
General workshop and tools	2,510	2,506	4
Metering stations	500	160	340
Miscellaneous	100	-	100
Generator	800	367	433
General maintenance	1,400	1,015	385
Boilers	1,300	988	312
Mixers/aerators	200	-	200
Blowers	200	133	67
Total maintenance supplies	19,370	13,796	5,574
LABORATORY:			
WW reagents	2,000	1,815	185
WW glassware	1,000	145	855
WW equipment	1,000	657	343
WW disposable equipment	2,000	1,170	830
WW misc supplies	1,000	-	1,000
Water equipment	500	-	500
Water reagents	3,450	3,340	110
WW outside testing soil/sludge	750	727	23
Total laboratory	11,700	7,854	3,846
PROFESSIONAL FEES:			
Engineering fees	5,682	5,681	1
Certified public accountant	620	616	4
Grit disposal fees	5,500	5,500	-
Certified accountant	3,200	3,200	-

Ishpeming Area Wastewater Treatment Facility
Schedule of Expenses - Budget and Actual
For the year ended December 31, 2005

Variance	Budget	Actual	Variance
PROFESSIONAL FEES, continued			
Attorney fees	\$ 1,600	\$ 1,567	\$ 33
Electrical	1,500	1,500	-
Sludge hauling	266	266	-
Lead	750	739	11
Mercury	1,900	1,830	70
Other metals	3,850	3,611	239
Wastewater testing	1,614	1,614	-
Total professional fees	<u>26,482</u>	<u>26,124</u>	<u>358</u>
COPPER TESTING	<u>300</u>	<u>82</u>	<u>218</u>
VEHICLES:			
GMC fuel	600	521	79
GMC maintenance	400	354	46
Tanker fuel	1,700	1,534	166
Tanker maintenance	1,400	1,320	80
Front end loader fuel	300	199	101
Front end loader maintenance	100	86	14
Vehicles misc	110	107	3
4x4 fuel	770	766	4
4x4 maintenance	1,041	1,040	1
Total vehicles	<u>6,421</u>	<u>5,927</u>	<u>494</u>
UTILITIES:			
Telephone	1,300	911	389
Electricity (plant)	91,373	91,373	-
Electricity (metering station)	800	434	366
Natural gas	17,000	15,815	1,185
Water/landfill/sewer	1,200	994	206
Total utilities	<u>111,673</u>	<u>109,527</u>	<u>2,146</u>
EQUIPMENT RENTAL:			
Other (pager)	1,000	922	78
Total equipment rental	<u>1,000</u>	<u>922</u>	<u>78</u>
PROFESSIONAL DEVELOPMENT:			
Memberships	500	340	160
Conferences	600	575	25
Total professional development	<u>1,100</u>	<u>915</u>	<u>185</u>
OTHER GENERAL EXPENSES:			
Office supplies	2,480	2,478	2
Computer/software	2,610	2,609	1
Insurance	28,550	28,513	37
Worker's compensation	3,505	3,503	2

Ishpeming Area Wastewater Treatment Facility
Schedule of Expenses - Budget and Actual
For the year ended December 31, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OTHER GENERAL EXPENSES, continued			
Advertising	\$ 500	\$ 486	\$ 14
Uncollectible debts	-	33	(33)
Total other general expenses	<u>37,645</u>	<u>37,622</u>	<u>23</u>
SAFETY AND HEALTH:			
Safety equipment	3,450	3,450	-
Employees physicals	540	530	10
Apparel	<u>610</u>	<u>538</u>	<u>72</u>
Total safety and health	<u>4,600</u>	<u>4,518</u>	<u>82</u>
TOTAL OPERATING EXPENSES, net of depreciation	<u>\$ 568,520</u>	<u>\$ 542,383</u>	<u>26,137</u>

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Authority Board
Ishpeming Area Wastewater Treatment Facility
700 Sunset Drive
Ishpeming, Michigan 49849

We have audited the financial statements of the Ishpeming Area Wastewater Treatment Facility, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Ishpeming Area Wastewater Treatment Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*. These instances are reported in a separate letter to management dated March 17, 2006.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Ishpeming Area Wastewater Treatment Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Authority Board
Ishpeming Area Wastewater Treatment Facility

This report is intended solely for the information and use of the Board and management of the Ishpeming Area Wastewater Treatment Facility, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 17, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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Ishpeming Area Wastewater Treatment Facility

Report to Management Letter

For the Year Ended December 31, 2005

Board of Directors
Ishpeming Area Wastewater Treatment Facility
700 Sunset Drive
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the Ishpeming Area Wastewater Treatment Facility for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the Facility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might result in reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

REPORTABLE CONDITIONS

Segregation of Duties:

- Due to the small size of the Facility, the proper segregation of duties in the accounting applications is not always practical. The most crucial areas are cash and cash management, where the danger those intentional or unintentional errors could be made and go undetected for a period of time exists. We recommend the Board continue to review the financial reports and cash transactions at regular intervals.

Conclusion

We will review the status of these audit findings and recommendations for fiscal 2005 during our next audit engagement. We have discussed these items with management and will be pleased to discuss them in further detail at your convenience.

This report is intended solely for the use of the Facility, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

March 17, 2006